

20. APPROVAL OF AGREEMENT ON UNDERSTANDING AND APPROVAL OF NATURAL GASOLINE SALES CONTRACTS, P.R.C. 2933.1, MOLINO FIELD, SANTA BARBARA COUNTY; PHILLIPS PETROLEUM COMPANY - W.O. 5341.

After consideration of Calendar Item 21 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION:

1. APPROVES THE NATURAL GASOLINE SALES CONTRACTS DATED MAY 20, 1964, BETWEEN PHILLIPS PETROLEUM COMPANY AND STANDARD OIL COMPANY OF CALIFORNIA; AUGUST 26, 1964, AND APRIL 15, 1965, AS AMENDED, BETWEEN PHILLIPS PETROLEUM COMPANY AND SHELL OIL COMPANY; SEPTEMBER 1, 1964, AS AMENDED, AND MARCH 1, 1965, AS AMENDED, BETWEEN PHILLIPS PETROLEUM COMPANY AND FLETCHER OIL COMPANY; FEBRUARY 23, 1966, BETWEEN PHILLIPS PETROLEUM COMPANY AND NEWHALL REFINING COMPANY, INC., AS A BASIS FOR THE SALE OF THE STATE'S ROYALTY SHARE OF NONOIL PRODUCTION UNDER LEASE P.R.C. 2933.1;
2. APPROVES THE "AGREEMENT ON UNDERSTANDING AND CLARIFICATION OF THE RIGHTS AND OBLIGATIONS OF PARTIES UNDER OIL AND GAS LEASE (P.R.C. 2933.1)", AND AUTHORIZES THE EXECUTIVE OFFICER TO EXECUTE SAID AGREEMENT.

Attachment

Calendar Item 21 (3 pages)

21.

APPROVAL OF AGREEMENT ON UNDERSTANDING AND APPROVAL OF NATURAL GASOLINE SALES CONTRACTS, P.R.C. 2933.1, MOLINO FIELD, SANTA BARBARA COUNTY; PHILLIPS PETROLEUM COMPANY - W.O. 5341.

State Oil and Gas Lease P.R.C. 2933.1, covering 4,250 acres of tide and submerged lands, issued on October 25, 1962, to Phillips Petroleum Company and Pauley Petroleum, Inc., pursuant to competitive public bidding, provides in part that the lessee shall not sell or otherwise dispose of the royalty share of products produced from the lease except in accordance with approved sales contracts or other methods first approved in writing by the State.

In order to define the terms of the lease, the Division and the lessee have prepared a proposed "Agreement on Understanding and Clarification of the Rights and Obligations of Parties Under Oil and Gas Lease (P.R.C. 2933.1)" (see Exhibit "A" attached) which clarifies certain rights and obligations under the lease with respect to the methods by which the lessee is to account to the State for royalties on gas produced from the leased lands and natural gasoline and other liquid hydrocarbon products extracted and saved from the produced gas. The agreement has been approved by the Office of the Attorney General.

Phillips Petroleum Company has submitted for approval the following natural gasoline sales contracts:

1. Purchaser: Standard Oil Company of California

Term. May 20, 1964 through June 16, 1964

Price. \$2.52 per barrel of 42 U. S. gallons delivered into Standard's Inglewood gasoline plant facilities.

2. Purchaser: Shell Oil Company

Term: June 17, 1964 through August 24, 1964

Price: \$1.68 per barrel of 42 U. S. gallons delivered into Shell's trucks at the onshore gas processing facilities of Lease P.R.C. 2933.1.

3. Purchaser: Fletcher Oil Company

Term: September 2, 1964 through October 31, 1964
(amended to extend the term through March 31, 1966)

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- Price: \$2.85 per barrel of 42 U. S. gallons delivered into Fletcher's trucks at the onshore gas processing facilities of Lease P.R.C. 2933.1. Subject to an adjustment, upward or downward, by 1 cent per barrel for each 0.1 cent per gallon change in Fletcher's house brand gasoline price, and further subject to an adjustment downward by 3 cents per barrel for each 1 per cent contaminant (bitumen). The base price of \$2.85 was amended to \$2.95 effective September 1, 1965.
4. Purchaser: Shell Oil Company
- Term: April 20, 1965 through May 15, 1965
(amended to extend the term through June 28, 1965)
- Price: \$1.68 per barrel of 42 U. S. gallons delivered into Shell's trucks at the onshore gas processing facilities of Lease P.R.C. 2933.1. This contract was necessary when Fletcher advised Phillips of their inability to purchase in excess of 600 barrels per day for the above period.
5. Purchaser: Newhall Refining Company, Inc.
- Term: April 1, 1966 through January 1, 1968 and thereafter on a year-to-year basis unless canceled by either party.
- Price: \$3.11 per barrel of 42 U. S. gallons delivered into Newhall's trucks at the onshore gas processing facilities of Lease P.R.C. 2933.1. Subject to an adjustment, upward or downward, by 1 cent per barrel for each 0.1 cent per gallon change in the Los Angeles regular gasoline price as published in the Oil and Gas Journal, and further subject to an adjustment downward by 3 cents per barrel for each 1 per cent contaminant (bitumen) content.

The quality and value of the natural gasoline product extracted by the lessee is reduced because of the contamination by bitumen (a heavy residual hydrocarbon) which requires additional processing and handling by the purchasers to remove the contaminant in the refinement of this raw product. There are no posted prices for a product of this quality and it is the staff's opinion that the above sales prices received by Phillips Petroleum Company are the current market prices at the well for the natural gasoline extracted and saved from the gas produced from the leased lands during the above periods.

IT IS RECOMMENDED THAT THE COMMISSION:

1. APPROVE THE NATURAL GASOLINE SALES CONTRACTS DATED MAY 20, 1964, BETWEEN PHILLIPS PETROLEUM COMPANY AND STANDARD OIL COMPANY OF CALIFORNIA; AUGUST 26, 1964, AND APRIL 15, 1965, AS AMENDED, BETWEEN PHILLIPS PETROLEUM COMPANY AND SHELL OIL COMPANY; SEPTEMBER 1, 1964,

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AS AMENDED, AND MARCH 1, 1965, AS AMENDED, BETWEEN PHILLIPS PETROLEUM COMPANY AND FLETCHER OIL COMPANY; FEBRUARY 23, 1966, BETWEEN PHILLIPS PETROLEUM COMPANY AND NEWHALL REFINING COMPANY, INC., AS A BASIS FOR THE SALE OF THE STATE'S ROYALTY SHARE OF NONOIL PRODUCTION UNDER LEASE P.R.C. 2933.1;

2. APPROVE THE "AGREEMENT ON UNDERSTANDING AND CLARIFICATION OF THE RIGHTS AND OBLIGATIONS OF PARTIES UNDER OIL AND GAS LEASE (P.R.C. 2933.1)", AND AUTHORIZE THE EXECUTIVE OFFICER TO EXECUTE SAID AGREEMENT.